

LAW OFFICES
GILCHRIST & RUTTER
PROFESSIONAL CORPORATION

SFUND RECORDS CTR
2100611

WILSHIRE PALISADES BUILDING
1299 OCEAN AVENUE, SUITE 900
SANTA MONICA, CALIFORNIA 90401-1000

TELEPHONE (310) 393-4000
FACSIMILE (310) 394-4700
E-MAIL: dnanney@grlawyers.com

September 23, 2004

VIA FEDEX

Thanne Cox
Assistant Regional Counsel
U.S. Environmental Protection Agency,
Region IX
75 Hawthorne Street, ORC-3
San Francisco, CA 94105-3901

CONFIDENTIAL FINANCIAL
INFORMATION

Re: Porcelain Metals Corporation/Omega Chemical Site – Response to Settlement
Offer and Request for Financial Hardship Review

Dear Ms. Cox:

Enclosed please find the following items and associated comments:

1. The original executed Signature Page of Porcelain Metals Corporation (“PMC”), dated September 2, 2004, regarding the proposed Omega Site De Minimis Settlement. This delivery is subject to financial hardship review which is requested. Note that settlement Option B has been selected even though PMC would prefer a final resolution. The reason is that Option B is lower cost right now and must be selected in light of PMC’s poor financial condition. The submission of the signature page is also subject to further review should the U.S. Environmental Protection Agency grant additional extensions or modification of settlement terms for de minimis parties generally.

In response to contentions that have been lodged by EPA regarding the reasonableness of the settlement offer by virtue of its acceptance by many de minimis parties, please understand that, even though PMC is submitting a signature page, PMC does not concur in EPA’s contention and does not believe that the alleged CERCLA liability is reasonable. PMC is simply in failing financial condition and cannot afford to contest these matters. Accordingly, please do not count PMC among the parties who must believe that the settlement is reasonable because they are participating in it.

2. The original EPA form Financial Statement for Businesses, signed and dated September 2, 2004. This form essentially refers to actual audited financial statements that are being submitted either as a part of the main supporting package referred to in item 8 below or separately as referred to in items 3 and 4 below.

3. Copies of audited financial statements for the year ended December 31, 2003, which are separately enclosed as they were prepared more recently than those contained in the

Thanne Cox
September 23, 2004
Page 2

main supporting package. The financial statements for 2003 reflect continuation of hard economic times for PMC and continuing losses from business operations.

4. Copies of unaudited financial statements for the current year, through July 2004, which reflect that PMC's business has continued to suffer during 2004 with ongoing operating losses. In case you wonder about it like I did, PMC explains that the column for "Eliminations" on the unaudited Consolidated Income Statement includes debits and credits as necessary with respect to intercompany transactions so that those items are not counted twice on the consolidated statements. Most of those transactions relate to sales of metal parts by PMC Fabrications to PMC, which then applies porcelain enamel coating to the products.

5. A copy of the 2003 U.S. Income Tax Return for PMC Holdings, Inc., supplementing the tax returns contained in the main supporting package.

6. The original Tax Information Authorization, signed and dated September 2, 2004. This form was completed as instructed, i.e., with the taxpayer name and signed. The Appointee and Tax Matters portions of the form are left blank because the instructions did not identify who you wish to be appointed and which tax matters you seek. You are authorized to fill in that information, provided that you forward a copy of the completed form to us so that we will know. Thank you.

7. Bank statements through July 2004, supplementing those contained in the main supporting package.

8. A copy of an extensive set of financial hardship application supporting materials and Business Confidentiality Claim. This includes a copy of the package that PMC submitted in January 2004 to the U.S. EPA (with a couple supplements since then in response to questions from Kate Taylor) as an update with respect to the earlier financial hardship submission as to the Operating Industries, Inc., Superfund Site in Monterey Park, California (and the Casmalia Disposal Site). These materials are equally applicable with respect to the Omega Chemical Site. Those materials include copies of the following items¹:

a. Transmittal Memorandum, dated January 15, 2004, from me to Ms. Taylor at U.S. EPA, with enclosed package including Porcelain Metal Corporation's "Financial

¹ Since those materials are already in the possession of Ms. Taylor of your office, it is unfortunate that your instructions required submission of such materials even if already submitted to U.S. EPA. That requirement imposes an additional, unnecessary financial cost on a party that is already in dire financial straits. It also results in a duplicate stack of paper at U.S. EPA that must have an associated cost for storage etc. You might consider altering your instructions in this regard so that, in the future, unnecessary costs like this can be avoided for both the citizen and the U.S. EPA. That is my soap box for the day.

Thanne Cox
September 23, 2004
Page 3

Hardship Information" statement, with an Executive Summary at Exhibit A and additional Exhibits B through I.

b. Facsimile Transmission, dated January 30, 2004, from me to Ms. Taylor forwarding pages that were missing from the financial statements included in the January package (due to inadvertent failure to copy the back side of two-sided pages).

c. Letter with email transmittal, dated March 18, 2004, from me to Ms. Taylor.

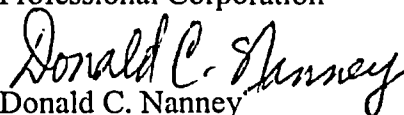
d. Transmittal Memorandum, dated April 12, 2004, from me to Ms. Taylor, with enclosures including certain additional financial statements and the ink original signed "Financial Hardship Information" statement (a facsimile of which had been submitted in January 2004).

e. Email, dated April 29, 2004, from Ms. Taylor to me requesting information as to a pending real estate transaction, and my email reply to Ms. Taylor also dated April 29, 2004. Note that the information requested by Ms. Taylor was already included in Exhibit E to the Financial Hardship Information statement, but I was happy to extract the needed information from the sizeable set of documents and highlight it and to provide some further comments regarding the context of, and the prospects for, the transaction. We might add to the context our understanding that the California Department of Toxic Substances Control, which is the oversight agency regarding the conditions at the former CAMEO site (which is the subject of the pending real estate transaction), expects any value from that site to go toward the cost of responsive action there and that is the intention of Porcelain Metals Corporation. That is another reason why that parcel of real estate cannot be considered an available asset for payment toward any federal Superfund Site liability.

Please let me know if you have any questions or if there is any other information that we might be able to supply to assist your review. Thank you for your time and consideration.

Very truly yours,

GILCHRIST & RUTTER
Professional Corporation


Donald C. Nanney
Of the Firm

Thanne Cox
September 23, 2004
Page 4

cc: Mr. Gerald Tyrrell, Porcelain Metals Corporation, w/o encls.
Timothy Patterson, Esq., California Attorney General's Office, w/o encls.
Larry McDaniel, Esq., California Department of Toxic Substances Control, w/o encls.